



CAC Item C5

Staff Report Item 11

TO: Ava Community Energy Authority

FROM: Jason Bartlett, Senior Finance Manager

SUBJECT: Budget Surplus & Reserve Allocation

DATE: November 15, 2023

Recommendation

Adopt a Resolution to confirm and finalize the approved amounts allocated to each waterfall component based on the 2022-2023 fiscal year budget surplus.

Background and Discussion

Budget Surplus

On June 15, 2022, the Board of Directors (BOD) approved the Fiscal Year 2022-2023 budget by resolution R-2022-19. This Resolution was passed based on the presentation given as Item 14 which provided the detailed plan on how to allocate the projected budget surplus. This proposed allocation is a waterfall approach that fills up priority needs first then continues to next priority items. The priority list and amounts presented are as follows:

- First \$50MM is allocated to Working Capital
- Next \$75MM is allocated to Reserve Funds
- Excess above \$125MM is split 50/50 to:
 - Incremental long-term renewable energy/clean storage investments
 - One-time on-bill credits to customers

These allocations were noted to be made after the end of the fiscal period ending June 30, 2023. With the completion of the annual audit, the contributable amounts can now be confirmed as actual and accurate.

Staff Report Item 11

A summary comparison of the approved budget to actuals is shown below. This shows a decrease in the net expected surplus amount by about \$10.2MM. In addition, only a portion of the Local Development allocation was actualized. For purposes of preserving the intent of funding local programs, the unrealized portion of the Local Development allocation is retained first before the waterfall allocations. The net budget surplus available for the waterfall is \$146,009,674.

BUDGET COMPARISON	FY 2022-23 Budget	FY 2022-23 Actual	FY 2022-23 Variance	
Operating Revenue				
Total Revenue	769,953,000	857,683,762	87,730,762	<i>A</i>
Operating Expenses				
Total Energy Operations	535,241,000	669,498,547	134,257,547	<i>B</i>
Total Overhead Operations	27,432,000	20,625,089	(6,806,911)	<i>C</i>
Total Non-Operating Expenses	30,728,000	1,164,041	29,563,959	<i>D</i>
Net Increase	176,552,000	166,396,085	(10,155,915)	<i>E = A-B-C-D</i>
Local Development Funding Retention	-	20,386,411	20,386,411	<i>F</i>
Net Increase Available for Waterfall	176,552,000	146,009,674	(30,542,326)	<i>G = E-F</i>
Waterfall				
Working Capital	50,000,000	50,000,000	-	<i>H</i>
Reserves	75,000,000	75,000,000	-	<i>I</i>
Available for 50/50 Split	51,552,000	21,009,674	(30,542,326)	<i>J = G-H-I</i>
Investment in LT Renewables	25,776,000	10,504,837	(15,271,163)	<i>K = J/2</i>
On-bill Credits	25,776,000	10,504,837	(15,271,163)	<i>L = K</i>

The allocations provided in the waterfall above are materially consistent with the presentation and intent of approval from the June 15, 2022 BOD Resolution of the fiscal year budget.

Reserve Fund Allocation

June 20, 2018, the BOD approved by resolution R-2018-26 to adopt a financial reserve policy. This policy established targets as well as minimum and maximum contribution limits based on revenues and made allocations to multiple reserve accounts.

January 20, 2021, the BOD approved by resolution R-2021-2 to amend the reserve policy to a single reserve account. In addition, this simplified methodology, aligned with industry standards and other CCA's, and set a target of 50% of annual operating costs, with ranges of 25-75% to account for variation of need. This policy also formalized the use of reserves funds requires BOD approval.

June 15, 2022, the BOD pre-established a contribution of \$75 million in the surplus waterfall towards Reserves. With this contribution, the reserve fund is \$230,873,400, which is 31.5.% of this year’s operating costs.

The chart below shows fiscal year reserve contributions and withdraws, account balance, operating expenses to cover, and the percent of operating expenses covered to relate to the 50% and ranged target. No contribution was made in 2020-2021 due to insufficient available net position.

Fiscal Year	Contribution	Withdraws	Balance	OpEx to Cover	PctOps
2018-2019	40,513,687	-	40,513,687	410,686,000	9.9%
2019-2020	49,704,640	-	90,218,327	383,045,000	23.6%
2020-2021	-	-	90,218,327	471,897,000	19.1%
2021-2022	65,655,073	-	155,873,400	562,667,000	27.7%
2022-2023	75,000,000	-	230,873,400	732,885,000	31.5%
2023-2024*	100,000,000	-	330,873,400	912,066,000	36.3%

*Approved contribution with projected operating expenses to cover as of 10/1/2023

Fiscal Impact

Approving this item formally allocates \$75MM to the reserve fund, releases approximately \$10.5MM to be redistributed to customers, and retains approximately \$10.5MM for long-term renewable energy or clean storage investments. A recommendation with potential options for the renewable energy or storage investment will be brought forward to the board for approval in 2024.

These allocations will not impact normal operations and continues Ava’s firm commitment to financial security.

Committee Recommendation

This item was reviewed in the Finance, Administrative, and Procurement subcommittee on November 8, 2023

Attachments

- A. Presentation
- B. Resolution to Approve Allocation of Funds from the Fiscal Year 2022-2023 Budget Surplus

Budget Surplus & Reserve Allocation from 2022-23 FY

Board of Directors

November 15, 2023



- June 15, 2022, the BOD approved the FY 2022-23 Budget by resolution R-2022-19
- The Budget proposed a waterfall allocation for surplus revenues:
 - The first \$50 million is to be retained for working capital needs
 - The next \$75 million is to go to the Reserve Fund
 - The remaining amount is to be split 50/50 to:
 - One-time on-bill credits to customers
 - Incremental long-term renewable energy/clean storage investments
- This presentation presents the budget performance, discusses the waterfall allocations, and confirms the amounts



Budget Performance Comparison

- Revenue from Operations was \$87.7MM above budget from rising rate environment and other income from contractual recovery of damages
- Cost of Energy was \$134.2MM above budget from rising cost environment
- Overhead was \$6.8MM below budget from delays in staffing, reduced contracting, and delayed marketing costs
- Non-Operating activity was \$29.6MM below budget due to
 - Offsets from investment income from rising interest rates
 - Unrealized capital costs with new building
 - \$20.4MM in Local Development costs are yet unrealized
- Net change was \$10.2MM below budget
- \$30.5MM below budget for waterfall

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Budget Surplus & Reserve Allocation

- June 15, 2022, the BOD established an allocation methodology with a waterfall treatment of the budget surplus, which is net of an allocation to Local Development Funding
 - \$50 million contribution to working capital to manage variable cash flow throughout the year and energy markets volatility
 - \$75 million contribution to Reserves, which requires Board action to access and utilize
 - ~\$10.5 million to customer on-bill credits, anticipated to be released in Dec/Jan timeframe
 - ~\$10.5 million to incremental long-term renewable energy/clean storage investments. Staff will present and seek Board approval on utilization of these funds in the future.

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 - Established targets as well as minimum and maximum contribution limits based on revenues
- January 20, 2021, the BOD approved by resolution R-2021-2 to amend the reserve policy to a single sum reserve
 - Simplified methodology, aligned with industry standards, and set target ranges of 25-75% of annual operating costs
 - Use of reserves funds requires BOD approval
- June 15, 2022, the BOD pre-established a contribution of \$75 million in the surplus waterfall towards Reserves



Annual Contributions

- With this year's contribution, the balance of the reserve fund will be \$230,873,400, which is 31.5% of this year's operating costs
- No contribution was made in 2020-2021 due to insufficient net position

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Thank you!



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**RESOLUTION NO. R-2023-xx
A RESOLUTION OF THE BOARD OF DIRECTORS
OF AVA COMMUNITY ENERGY AUTHORITY APPROVING THE ALLOCATION OF FUNDS
FROM THE FISCAL YEAR 2022-2023 BUDGET SURPLUS**

WHEREAS The Ava Community Energy Authority (“Ava”) was formed as a community choice aggregation agency (“CCA”) on December 1, 2016, Under the Joint Exercise of Power Act, California Government Code sections 6500 *et seq.*, among the County of Alameda, and the Cities of Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Piedmont, Oakland, San Leandro, and Union City to study, promote, develop, conduct, operate, and manage energy-related climate change programs in all of the member jurisdictions. The cities of Newark and Pleasanton, located in Alameda County, along with the City of Tracy, located in San Joaquin County, were added as members of Ava and parties to the JPA in March of 2020. The city of Stockton, located in San Joaquin County was added as a member of Ava and party to the JPA in September of 2022. The city of Lathrop, located in San Joaquin County, was added as a member to Ava and party to the JPA in October of 2023. On October 24, 2023, the Authority legally adopted the name Ava Community Energy Authority, where it had previously used the name East Bay Community Energy Authority since its inception.

WHEREAS on June 15, 2022, the Board of Directors approved the Fiscal Year 2022-2023 Budget by Resolution R-2022-19 based on the presentation with the proposed allocations of the budget surplus,

WHEREAS the presented allocations were a waterfall approach of budget surplus that resourced the first \$50 million to be retained for working capital for the next fiscal year, the next \$75 million to be allocated to the reserve fund balance, and the excess above \$125 million to be split fifty-fifty with investments in long-term renewable or clean energy projects and a one-time on-bill credit return to customers, and

WHEREAS with the completion of the annual audit, the budget surplus amount is known to be actual and accurate and after retention of local program funding intentions, the amount of budget surplus available for the waterfall allocations is \$146,009,674.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF AVA COMMUNITY ENERGY AUTHORITY DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The Board of Directors hereby approves the retention of \$50 million from budget surplus for working capital purposes.

Section 2. The Board of Directors hereby approves the contribution of \$75 million from budget surplus to the reserve fund balance.

Section 3. The Board of Directors hereby approves the investment of \$10,504,837 from budget surplus for long-term renewable and clean energy projects.

Section 4. The Board of Directors hereby approves the return of \$10,504,837 from budget surplus to customers as on-bill credits.

ADOPTED AND APPROVED this 15th day of November, 2023.

Elisa Márquez, Chair

ATTEST:

Adrian Bankhead, Clerk of the Board